

UNITED STATES DISTRICT COURT

DISTRICT OF OREGON

UNITED STATES OF AMERICA	)	No. CR 03-432 (HA)
	)	SECOND SUPERSEDING
vs.	)	<u>I N D I C T M E N T</u>
	)	
J. KENNETH STRINGER, III,	)	[15 U.S.C. 77q(a)
J. MARK SAMPER, and	)	15 U.S.C. 77x
WILLIAM N. MARTIN,	)	15 U.S.C. 78j(b)
	)	15 U.S.C. 78m(a)
Defendants.	)	15 U.S.C. 78m(b)(2)(A)
	)	15 U.S.C. 78m(b)(2)(B)
	)	15 U.S.C. 78m(b)(5)
	)	15 U.S.C. 78ff
	)	18 U.S.C. 2
	)	18 U.S.C. 371
	)	18 U.S.C. 1001
	)	18 U.S.C. 1341
	)	18 U.S.C. 1343
	)	18 U.S.C. 1344
	)	17 C.F.R. § 240.10b-5
	)	17 C.F.R. § 240.12b-20
	)	17 C.F.R. § 240.13a-1
	)	17 C.F.R. § 240.13a-13
	)	17 C.F.R. § 240.13b2-1
	)	17 C.F.R. § 240.13b2-2]

**THE GRAND JURY CHARGES THAT:**

**INTRODUCTION**

**I. Relevant Persons and Entities**

**A. FLIR Systems, Incorporated**

1. During all relevant time periods encompassed by this Indictment, FLIR SYSTEMS, INCORPORATED, hereinafter referred to as "FLIR" or the "Company," was a publicly held

corporation duly organized and existing under the laws of the State of Oregon. FLIR designed, manufactured, and marketed thermal imaging and broadcast camera systems that, among other things, detect infrared radiation or heat emitted directly by all objects or materials. FLIR's headquarters and senior executive offices were located at 16505 Southwest 72nd Avenue, Portland, Oregon 97224.

2. As a publicly owned corporation, shares of common stock of FLIR were publicly quoted and traded on the National Market of the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), an electronic trading system by which securities are bought and sold. FLIR's common stock is registered with the United States Securities and Exchange Commission, hereinafter referred to as the "SEC." FLIR had shareholders located throughout the United States, including in the District of Oregon.

**B. The Defendants**

3. The defendants, J. KENNETH STRINGER, III ("STRINGER"), J. MARK SAMPER ("SAMPER") and WILLIAM N. MARTIN ("MARTIN"), were three senior executives at FLIR between 1998 and April 2000.

4. STRINGER was appointed FLIR's President and Chief Executive Officer ("CEO") in December 1998. STRINGER joined FLIR in 1984 as its Vice President of Finance and Chief Financial Officer. STRINGER was appointed FLIR's Executive Vice President in 1990, and he was elected to the Board of Directors in 1993. STRINGER was appointed President and Chief Operating Officer ("COO") in 1995. Before joining FLIR, STRINGER spent six years with another publicly traded company in Portland, Oregon as its Director of Financial Reporting. STRINGER had been a

certified public accountant (CPA) licensed by the State of Oregon and had worked for a major public accounting firm. FLIR's Board of Directors relieved STRINGER of his duties as FLIR's President and CEO on May 23, 2000 and dismissed him from FLIR on August 2, 2000.

5. Around the time of STRINGER's promotion to President and COO in 1995, SAMPER was appointed FLIR's Vice President of Finance and Chief Financial Officer ("CFO"). Prior to his promotion, SAMPER was FLIR's Corporate Controller from 1990 to 1995. SAMPER reported to STRINGER. Before joining FLIR, SAMPER spent six years as an Audit Manager with a national certified public accounting firm. At all times material to this Indictment, SAMPER was a CPA licensed by the State of Oregon. SAMPER resigned as FLIR's Vice President of Finance and CFO in February 2000, but remained on contract through April 2000.

6. MARTIN joined FLIR in 1994 as Director of Sales and was appointed Vice President, Sales for FLIR in 1995. In 1997, MARTIN was promoted to Senior Vice President of Sales for Airborne Products Worldwide. MARTIN reported to STRINGER. MARTIN was terminated as Senior Vice President of Sales for Airborne Products Worldwide effective on July 31, 2000.

### **C. FLIR's Outside Auditors**

7. FLIR's annual financial statements were required to be audited by a certified public accounting firm. The accounting firm of PriceWaterhouseCoopers, LLP, hereinafter referred to as "PWC," audited FLIR's fiscal years ("FY") 1998 and 1999 annual financial statements. PWC expressed its opinion in FLIR's Form 10-K annual reports that FLIR's financial statements fairly presented, in all material respects, the financial position and results of operations of FLIR in conformity with generally accepted accounting principles ("GAAP"). In addition, PWC conducted

quarterly reviews of FLIR's quarterly financial statements, Forms 10-Q, filed by FLIR with the SEC for the first three quarters of 1998 and 1999.

8. In connection with the audit of FLIR's consolidated financial statements for the year ended December 31, 1999, PWC identified three material weaknesses in FLIR's internal controls: (i) the use of manual entries to general ledger account balances for sales, cost of sales, accounts receivable, inventory and intercompany receivables and payables and the lack of regular and timely follow-up of the related accounts; (ii) the lack of follow-up by personnel independent from the inventory costing system; and (iii) the lack of regular and timely reconciliation of intercompany receivable and payable accounts and follow-up of the related accounts. Because of these weaknesses, PWC advised FLIR's Audit Committee of the Board of Directors that PWC would not be able to review FLIR's March 31, 2000 interim financial statements. On May 2, 2000, FLIR dismissed PWC as its independent auditors.

9. On July 13, 2000, FLIR engaged Arthur Anderson LLP, hereinafter referred to as "AA," as FLIR's independent auditors for the fiscal year ending December 31, 2000. AA audited FLIR's FY 2000 Form 10-K annual report and Form 10-Q quarterly reports filed with the SEC.

10. In 2001, FLIR, as part of the 2000 audit, re-engaged PWC to review and restate FLIR's financial results for 1998 and 1999.

## **II. FLIR's Senior Management Compensation**

11. STRINGER, SAMPER and MARTIN were personally motivated to meet quarterly and annual pre-tax earnings targets that had been presented to FLIR's Board of Directors. According to FLIR's Executive Compensation Plan, STRINGER, SAMPER and MARTIN were eligible to

receive cash bonuses, stock grants, and stock options if FLIR's earnings before income taxes reached pre-set targets. The targets were derived from FLIR's budget for the year.

**A. Base Salary.** In establishing the base salary, FLIR's Compensation Committee of the Board of Directors considered the financial performance of the Company as well as the success of each defendant in developing and executing the Company's strategic plans, developing management employees, and exercising leadership.

**B. Annual Incentive.** The Executive Compensation Plan provided that a significant proportion of total cash compensation for executive officers should be subject to attainment of specific Company earnings criteria. This approach created a direct incentive for defendants to achieve desired performance goals and placed a significant percentage of defendants' compensation at risk. Consequently, each year the Compensation Committee established potential bonuses for the defendants based on the Company's achievement of certain earnings criteria. For 1998, annual bonuses equal to approximately 22% to 80% of base salaries were paid to defendants based on the Company's achievement of such predetermined earnings criteria. Had FLIR accurately reported its earnings in 1998, STRINGER, SAMPER and MARTIN would not have received a bonus. No annual bonuses were paid to defendants in 1999.

**C. Stock Options.** Equity participation was a key component of FLIR's Executive Compensation Plan. Stock options were granted to defendants primarily based on their actual and potential contributions to the Company's growth and profitability and competitive marketplace practices. Option grants were designed to provide an effective incentive for management to create shareholder value over the long term since the full benefit of the compensation

package could not be realized unless an appreciation in the price of the Company's common stock occurred over a number of years.

**D. Miscellaneous Expenses.** In 1998 and 1999, FLIR paid for STRINGER's membership in three private clubs and certain automobile expenses. STRINGER also received a cash payment to cover the income tax consequences of his stock grants. In 1998 and 1999, FLIR paid for certain automobile expenses of SAMPER and MARTIN.

### **III. FLIR's Financial Statements and Earnings Reports**

12. To sell securities to the public, FLIR was required to comply with the federal securities laws, including the Securities Act of 1933, the Securities Exchange Act of 1934, and regulations promulgated thereunder. These laws and regulations are designed to ensure that a publicly owned company's financial information is accurately recorded and disclosed to the public. Under these regulations, FLIR was required, among other things, to (a) file with the SEC annual financial statements (Form 10-K) audited by an independent accountant; (b) file with the SEC quarterly updates of its financial statements (Form 10-Q) that disclosed its financial condition and the results of its business operations for a three-month period; (c) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that FLIR's financial transactions were recorded as necessary to permit preparation of financial statements in conformity with GAAP as well as other applicable criteria and that revenue was properly recognized; and (d) make and keep books, records, and accounts that accurately and fairly reflected the Company's business transactions.

13. At all times material to this Indictment, FLIR's quarterly and year-end financial statements were transmitted to the offices of R. R. Donnelly in Portland, Oregon and in Seattle,

Washington, a filing agent that assists companies in electronically filing periodic reports with the SEC, and were thereafter transmitted electronically by R. R. Donnelly to the SEC in Washington, D.C.

14. Between January 1998 through in or about April 2000, STRINGER, SAMPER and MARTIN caused FLIR's financial statements that purported to conform with GAAP and the applicable regulatory requirements to be prepared in Quarterly and Annual Reports for filing with the SEC. The Quarterly Reports (Form 10-Q) and Annual Reports (Form 10-K) included acknowledgments that management was responsible for the preparation, integrity and objectivity of the financial statements, along with representations that they were prepared in conformity with GAAP. The quarterly and annual financial statements were made available to shareholders and the investing public. Other than the 1999 Form 10-K, all such reports were either signed or reviewed and approved by both STRINGER and SAMPER. The 1999 Form 10-K was signed by STRINGER but SAMPER, who helped develop the financial statements, did not approve the final version due to his departure from FLIR.

#### **IV. FLIR's Communications with Investors**

15. STRINGER and SAMPER caused FLIR to regularly issue press releases concerning FLIR's earnings, which were disseminated throughout the United States and elsewhere via the news media. STRINGER and SAMPER also caused FLIR to issue projections concerning what FLIR expected its future earnings to be over the course of each year. Typically, these earnings forecasts were made on a quarterly basis via press releases. Such earnings were related directly to the actions of MARTIN and FLIR employees working for him in the sales department.

16. At all times material to this Indictment, analysts of major Wall Street investment firms followed FLIR's performance and guidance estimates regarding its expected earnings. STRINGER and SAMPER regularly conducted telephone conference calls with analysts to update them and respond to their questions concerning FLIR's financial results as set forth in FLIR's earnings releases. In most situations between FY 1998 and FY 1999, FLIR's reported earnings met or exceeded Wall Street's expectations.

## **V. Registration and Sale of FLIR Stock**

17. As required by law, securities offered to the public through the mails or through interstate commerce must be registered with the SEC. The registration forms filed by companies include a prospectus for potential purchasers providing detailed facts about the Company including: (1) a description of the Company's business; (2) a description of the security to be offered for sale; (3) information about the management of the Company; and (4) financial statements certified by independent public accountants. Federal law requires that issuers of corporate securities make full disclosure of material facts related to the offering. A primary goal of these securities laws is to protect unsophisticated investors from being misled by issuers, distributors, and dealers of securities.

18. On or about May 29, 1998, FLIR filed a registration statement, known as Form S-3, to register over 2.4 million shares of its common stock to sell to the investing public. As required by law, a prospectus was included containing management's discussion and analysis ("MD&A") of FLIR's financial condition and results of operations. Included in the MD&A was a comparison of revenue for three months ended March 31, 1998 and 1997. The MD&A reported that revenue for the three months ended March 31, 1998 increased 75.1% from \$15.8 million in the first quarter of 1997



to \$27.7 million in the first quarter of 1998. STRINGER and SAMPER signed FLIR's Form S-3, and the revenue reported for 1998 related to the actions of MARTIN's sales department.

19. On or about November 10, 1999, as required by law, FLIR filed a registration statement, known as Form S-1, to register over 2.1 million shares of its common stock to allow certain restricted stock shareholders to sell their shares. A prospectus was included containing the MD&A of FLIR's financial condition and results of operations. Included in the MD&A was a comparison of revenue over the years ended December 31, 1998, 1997, and 1996. The MD&A reported that revenue increased 43.9%, from \$144.9 million in 1997 to \$208.6 million in 1998. The S-1 was signed by STRINGER and SAMPER. MARTIN's sales department generated the reported revenue during the relevant time period.

## **VI. Applicable Revenue Recognition Rules**

20. FLIR's sales revenue is the measure of the amount of money brought in by the sales of FLIR's products. During the relevant time period, such purported sales were accomplished through the actions of MARTIN and his sales department. Under GAAP, the SEC's rules and regulations, and FLIR's own publicly stated accounting policies, FLIR's sales revenue was recorded and reported for specific periods, *i.e.*, at the end of each quarter and at the end of its fiscal year. FLIR used a calendar year as its fiscal year. In 1998 and 1999, FLIR's first quarter ended March 31; its second quarter ended June 30; its third quarter ended September 30; and its fourth quarter ended December 31.

21. In accordance with GAAP, FLIR had a revenue recognition policy that governed, among other things, the amount of revenue that FLIR could recognize from the sales of its products and the specific reporting period within which FLIR could recognize that revenue.

**A. Contingent/Consignment Sales**

22. FLIR could not recognize revenue from contingent sales. A contingent sale refers to a sale in which FLIR's purported customer did not have an obligation to pay for the systems purchased from FLIR. A contingent sale arose when FLIR's customer was assured that it had the right to cancel a sale before any payment was made or to exchange systems for other products. A contingent sale also occurred when FLIR's customer was not the end-user for FLIR's products, but rather was a reseller of those products and did not pay FLIR for the products until they were resold by the middleman-customer to an end-user.

**B. Rights of Return**

23. FLIR could not recognize revenue based on sales that were made with rights of return, except when there was a history of such sales to provide a basis for estimating the amount of future returns and if income was reduced to reflect the estimated future returns through the establishment of a reserve for returned merchandise.

**C. Rentals**

24. FLIR could not recognize as "sales" revenue the revenue obtained from rental transactions in which the lessee (FLIR's customer) did not take title to the systems. Rather, the lessor (FLIR) could recognize only the rental revenue earned in the reporting period.

**D. Bill and Hold**

25. FLIR's revenue recognition policy as pertaining to international sales provided that FLIR was allowed to use a warehouse (hereinafter referred to as the "bonded warehouse") under the control of a third-party to hold systems that were being exported to foreign customers while those systems were awaiting export licenses from the Department of State or the Department of

Commerce. Because of delays between applying for an export license and the receipt of the license, FLIR's revenue recognition policy allowed revenue to be recognized upon shipment to the bonded warehouse under "bill and hold" principles if the only remaining obligation was the approval of a license for the units. A bill and hold transaction is one in which FLIR sells units to an international customer, bills the customer for the units, and holds them at the bonded warehouse for later delivery.

In order to recognize revenue on bill and hold transactions, FLIR was required to meet the following bill and hold principles: (1) the risks of ownership for the units had to have passed to the buyer; (2) the customer must have made a fixed commitment to purchase the goods, preferably reflected in written documentation; (3) the customer, not FLIR, must have requested that the transaction be on a bill and hold basis and must have had a substantial business purpose for ordering the goods on a bill and hold basis; (4) there must have been a fixed schedule for delivery of the goods that was reasonable and consistent with the customer's business purpose; (5) FLIR must not have retained any specific performance obligations such that the earnings process was not complete; (6) the ordered goods must have been segregated from FLIR's inventory and not have been subject to being used to fill other orders; and (7) the equipment must have been complete and ready for shipment.

## **VII. The Scheme to Defraud**

26. Between approximately January 1998 through in or about April 2000, STRINGER, SAMPER and MARTIN devised and intended to devise a scheme to defraud FLIR, its Board of Directors, its shareholders, its auditors, its lenders, the SEC, and the investing public.

27. Among the goals of the scheme were:

A. To conceal the true financial condition of FLIR and to make it appear that FLIR was in better financial condition than was actually the case;

B. To artificially increase and maintain the share price of FLIR's common stock by creating an illusion of prosperity for FLIR with earnings stated greater and losses stated less than they actually were;

C. To generate enthusiasm and demand for the shares of common stock of FLIR in the financial markets;

D. To justify and support artificially high quoted and traded prices for FLIR's stock during the course of the scheme to defraud;

E. To ensure that FLIR reported that it had met or exceeded projected quarterly and year-end results for, among other things, pre-tax revenue and earnings;

F. To maintain and increase the defendants' positions in FLIR, and to enrich themselves and others through FLIR's Executive Compensation Plan; and

G. To use artificially inflated revenues and share prices to (i) acquire other companies, and (ii) increase the Company's ability to borrow money from banks.

28. The means by which STRINGER, SAMPER and MARTIN achieved and attempted to achieve the goals of the scheme included inflating quarterly sales revenue through six fraudulent revenue recognition devices (hereinafter referred to as the "six fraudulent revenue recognition devices"): (1) recording revenue on false sales; (2) recording revenue on products shipped to a customer that were different than the products ordered by the customer; (3) recording revenue on contracts that were subject to "side letters" or "side agreements" with customers providing rights of returns or contingencies; (4) recording revenue on "sales" that were, in fact, rental agreements between FLIR and the customer and in which title to the product did not transfer to the customer; (5) recording revenue on sales with unmet consignments or contingencies; and (6) recording revenue for

improper bill and hold transactions. These devices violated GAAP and were inconsistent with FLIR's own revenue recognition policy.

29. In addition to the six fraudulent revenue recognition devices, SAMPER, under the supervision of STRINGER, achieved and attempted to achieve the goals of the scheme to defraud by artificially inflating publicly reported earnings through three fraudulent accounting devices that understated expenses and overstated revenues (hereinafter referred to as the “three fraudulent accounting devices”): (1) understating millions of dollars in expenses in a suspense account known as “project inventory”; (2) overstating revenues by \$4.6 million in the Third Quarter of 1999 through what was known as a “drop shipment” from FLIR’s Swedish subsidiary that never occurred; and (3) overstating income and understating expenses in the intercompany accounts.

30. As STRINGER, SAMPER and MARTIN well knew, there was no justification in fact, or under GAAP, for FLIR’s recognition of revenue from “sales” made through the six fraudulent revenue recognition devices. STRINGER and SAMPER also knew there was no justification in fact, or under GAAP, for the understatement of expenses and overstatement of earnings made through the three fraudulent accounting devices. STRINGER, SAMPER and MARTIN engaged in the fraudulent revenue recognition devices, and STRINGER and SAMPER engaged in the fraudulent accounting devices, knowing and intending (1) that such sales and accounting entries would ultimately be reflected in FLIR’s financial statements and public filings with the SEC, (2) that FLIR’s financial statements and public filings would falsely overstate FLIR’s earnings, and (3) that the investing public would rely upon such overstated earnings.

### **VIII. Concealment from Auditors of the Scheme to Defraud**

31. STRINGER, SAMPER, and MARTIN achieved and attempted to achieve their scheme to defraud by making false and misleading statements to FLIR's outside auditors, PWC. STRINGER, SAMPER and MARTIN did not disclose to members of PWC's engagement team, during the course of its annual audits and quarterly reviews, that FLIR was engaging in the six fraudulent revenue recognition devices or the three fraudulent accounting devices.

32. STRINGER, SAMPER and MARTIN further achieved and attempted to achieve their scheme to defraud by signing false and misleading management representation letters to FLIR's outside auditors, PWC.

### **IX. False Statements in Public Filings**

33. STRINGER, SAMPER and MARTIN achieved and attempted to achieve their scheme to defraud by making materially false and misleading statements with the SEC. STRINGER, SAMPER and MARTIN did not publicly disclose the six fraudulent revenue recognition devices or the three fraudulent accounting devices in FLIR's public filings with the SEC, or in any other publicly-issued statement, between the First Quarter of 1998 and April 2000.

34. Cumulatively, these actions caused FLIR's financial results to be materially misstated for each of the quarters of 1998 and 1999 as well as for year-end 1998 and 1999. FLIR filed false and misleading periodic reports on Forms 10-K, 10-Q and 8-K that incorporated these misstatements. Additionally, FLIR filed two registration statements with the SEC that incorporated these misstatements: a registration statement on Form S-3 in May 1998, and a registration statement on Form S-1 in November 1999.

35. By falsely concealing the fraudulent revenue recognition and accounting devices, STRINGER, SAMPER and MARTIN were able to assure that FLIR's financial statements, public filings, earnings releases and earnings statements during 1998 and 1999 reported to the investing public that FLIR's pre-tax income and earnings were, for the most part, continuously profitable, rapidly growing, and in line with analysts' estimates of FLIR's anticipated financial performance. In truth and fact, as STRINGER, SAMPER and MARTIN well knew, FLIR's actual pre-tax income and earnings were not continuously profitable, rapidly growing or in line with analysts' estimates during that time period. Instead, the fraudulent revenue recognition and accounting devices hid from the public's view the true picture of FLIR's financial performance during that time period – a company experiencing severe cash flow problems, increased borrowing (and dwindling available credit) from banks, and pressure from the former owners of a previously merged company to maintain a sufficiently high share price of FLIR's stock to avoid unwinding of the merger.

36. FLIR restated its 1998 and 1999 financial statements in 2000 and 2001 on three occasions to correct these deliberate misstatements.

**COUNT 1**  
(Conspiracy)

**I. THE CONSPIRACY**

1. The Introduction to this Indictment is specifically incorporated herein.
2. Beginning in or about January 1998, the exact date being unknown to the grand jury, and continuing thereafter through at least April 2000, within the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

did knowingly and willfully combine, conspire, confederate, and agree with each other and with others, known and unknown to the grand jury, to defraud the United States and agencies thereof and to commit offenses against them, to wit:

- A. to defraud the United States by impeding, impairing, obstructing and defeating the lawful government functions of the SEC, an agency of the United States, in its enforcement of the federal securities laws, in violation of Title 18, United States Code, Section 371;
- B. by the use of means and instrumentalities of interstate commerce and of the mails, to employ a device, scheme and artifice to defraud; to make untrue statements of material facts, to omit to state material facts; and to engage in acts, practices and courses of business that would operate as a fraud and deceit in connection with the purchase and sale of FLIR securities, in violation of Title 15, United States Code, Sections 78j(b) and 78ff; and Title 17, Code of Federal Regulations, Section 240.10b-5;
- C. to knowingly and willfully make and cause to be made materially false statements in quarterly and annual reports filed with the SEC, in violation of Title 15, United States Code, Sections 78m(a) and 78ff; and Title 17, Code of Federal Regulations, Sections 240.12b-20, 240.13a-1, and 240.13b2-2
- D. to make and cause to be made false, fictitious and fraudulent material statements and representations, and to falsify, conceal, and cover up material facts by trick, scheme or device in matters within the jurisdiction of the SEC, in violation of Title 18, United States Code, Section 1001;
- E. to knowingly and willfully maintain false books and records of FLIR, in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5), and 78ff; and Title 17, Code of Federal Regulations, Section 240.13b2-1;
- F. to knowingly and willfully circumvent the system of internal financial and accounting controls of FLIR, in violation of Title 15, United States Code, Sections 78m(b)(2)(B), 78m(b)(5) and 78ff;
- G. to knowingly and willfully make materially false statements to accountants and auditors of FLIR, and to conceal material facts from accountants and



auditors of FLIR, in violation of Title 15, United States Code, Sections 78m(a), 78m(b)(2), and 78ff; and Title 17, Code of Federal Regulations, Section 240.13b2-2;

- H. to knowingly and willfully make and cause to be made untrue statements of material fact, and omit to state and cause to be omitted material facts required to be stated, in a registration statement filed under the Securities Act of 1933 with respect to stock to be issued in conjunction with a secondary stock offering, in violation of Title 15, United States Code, Sections 77q(a) and 77x;
- I. to knowingly devise, and intend to devise, through the use of the mail, a scheme and artifice to defraud FLIR, its Board of Directors, its shareholders, its auditors, the SEC, and the investing public, and to obtain money or property by means of false and fraudulent pretenses, representations and promises, in violation of Title 18, United States Code, Section 1341;
- J. to knowingly transmit, and cause to be transmitted, by means of wire communication in interstate commerce, certain writings, signs, signals and sounds, for the purpose of executing a scheme and artifice to defraud FLIR, its Board of Directors, its shareholders, its auditors, the SEC, and the investing public, and for obtaining money and property by false and fraudulent pretenses, representations and promises, in violation of Title 18, United States Code, Section 1343; and
- K. to knowingly execute and attempt to execute a scheme and artifice to defraud a financial institution, and to obtain monies, funds, credits, assets, and other property owned by and under the custody and control of a financial institution, whose deposits were insured by the Federal Deposit Insurance Corporation, by means of false and fraudulent pretenses, representations and promises, in violation of Title 18, United States Code, Section 1344.

## **II. THE PURPOSE OF THE CONSPIRACY**

1. The purpose of the conspiracy was for the defendants STRINGER, SAMPER and MARTIN to defraud FLIR, its Board of Directors, its Shareholders, its auditors, its lenders, the SEC and the investing public and thereby to enrich themselves.

### **III. THE MANNER AND MEANS OF THE CONSPIRACY**

1. The conspirators implemented a variety of manners and means to effectuate their illegal purpose, including the following:

#### **A. The Scheme to Inflate FLIR's Financial Statements**

2. The conspirators employed the following techniques, among others, to falsify and inflate FLIR's quarterly and annual financial statements during FY 1998 and FY 1999:

- (a) by engaging in the six fraudulent revenue recognition devices;
  - (b) by engaging in the three fraudulent accounting devices;
  - (c) by knowingly filing false financial statements with the SEC that materially misstated FLIR's true financial condition and operational results;
  - (d) by knowingly disseminating false earnings information via the news media and investors' conferences that materially misstated FLIR's true financial condition;
  - (e) by knowingly providing false information and documents to FLIR's auditors;
- and
- (f) by failing to disclose and by concealing other material financial information from FLIR's auditors and lenders.

#### **B. Roles of the Defendants in the Conspiracy**

##### **1. Defendant J. Kenneth Stringer, III**

3. As FLIR's President, COO and, later, CEO, STRINGER led the scheme to defraud. Throughout 1998 and 1999 and through April 2000, STRINGER established budgets and expected results for FLIR's growth. During this time, STRINGER maintained sales and revenue data comparing FLIR's actual results against both budgeted results and several analysts' estimates.

STRINGER maintained this data in various spreadsheets, a compilation of which was commonly known within FLIR as “the mother of all spreadsheets.” SAMPER updated these spreadsheets regularly with actual sales and revenue numbers, which STRINGER and SAMPER used to track FLIR's actual performance to its projected or budgeted performance. Throughout 1998 and 1999 and through April 2000, STRINGER held senior staff meetings with, among others, SAMPER and MARTIN to discuss FLIR's performance as reflected in STRINGER's spreadsheets.

4. During STRINGER's senior staff meetings, STRINGER pressured FLIR employees to meet internal earnings projections as well as external analysts' earnings expectations. In periods preceding major events at FLIR, such as quarterly or year-end closings, public offerings, bank loan approvals, or mergers, this pressure for results was exacerbated.

5. STRINGER directed FLIR's financial reporting:

(a) STRINGER reviewed FLIR's Form 10-Q for each of the three quarters in 1998, 1999 and the first quarter of 2000;

(b) STRINGER reviewed, approved and signed FLIR's Form 10-K for 1998 and 1999;

(c) STRINGER reviewed and signed FLIR's registration statements filed in May 1998 and November 1999;

(d) STRINGER reviewed and approved certain earnings releases issued by FLIR, which reported the financial information to be incorporated into the Forms 10-Q, Forms 10-K, and registration statements;

(e) STRINGER discussed the earnings releases containing the financial statements in conference calls with analysts;

(f) STRINGER reviewed and signed management representation letters provided to FLIR's independent auditors in April 1999, November 1999, December 1999 and April 2000, which contained representations he knew to be false;

(g) STRINGER directed the six fraudulent revenue recognition devices; and

(h) STRINGER directed and participated in at least two of the three fraudulent accounting devices, namely the project inventory account and the drop shipment entry.

## **2. Defendant J. Mark Samper**

6. SAMPER coordinated the scheme to defraud and FLIR's financial reporting:

(a) SAMPER prepared, reviewed and signed FLIR's Forms 10-Q for each of the 1998 and 1999 quarters;

(b) SAMPER prepared, reviewed and signed the Form 10-K for 1998;

(c) SAMPER prepared, reviewed and signed the registration statements filed by FLIR in May 1998 and November 1999;

(d) SAMPER drafted or oversaw the drafting of the financial statement footnote disclosures and prepared the financial statements throughout 1998 and 1999;

(e) SAMPER drafted, reviewed, and approved certain earnings releases issued by FLIR, which reported the financial information to be incorporated into the Forms 10-Q, Forms 10-K, and registration statements, and which were discussed in the conference calls with analysts;

(f) SAMPER reviewed and signed management representation letters provided to FLIR's independent auditors in April 1999, November 1999, December 1999 and April 2000, which contained representations he knew to be false;

(g) SAMPER coordinated and participated in the fraudulent revenue recognition devices; and

(h) SAMPER coordinated and participated in the three fraudulent accounting devices.

### **3. Defendant William N. Martin**

7. As FLIR's Senior Vice President of Sales for Airborne Products Worldwide, MARTIN also coordinated the six fraudulent revenue recognition devices, knowing that such purported "sales" would be fraudulently recognized as revenue and incorporated into FLIR's public filings and statements. In addition to his role as a coordinator, MARTIN also personally fabricated sales orders, knowing that FLIR would recognize the revenue from those bogus sales and include the revenue figures in its public filings and statements.

8. MARTIN placed tremendous pressure on his sales staff to bring in sales orders. At the beginning of his tenure as Senior Vice President, he placed FLIR's salesmen on a 90-day probation requiring the salesmen to do whatever it took to bring in sales orders. MARTIN directed his salesmen to bring in any type of document from the customers, regardless of how questionable the document might be, which indicated an interest by a potential customer to make a future purchase.

9. MARTIN reviewed and signed management representation letters provided to FLIR's auditors in April 1999, December 1999, and April 2000, which contained representations he knew to be false.

**C. The Six Fraudulent Revenue Recognition Devices**

10. Under the direction of STRINGER, SAMPER and MARTIN, FLIR engaged in the six fraudulent revenue recognition devices.

**1. Booking False Sales**

11. STRINGER, SAMPER and MARTIN caused FLIR to inflate its earnings and revenues on sales transactions that were false, including non-existent customer purchase orders and FLIR sales orders that were fabricated and unverified.

**2. Placeholders**

12. STRINGER, SAMPER and MARTIN caused FLIR to inflate its earnings and revenues on transactions in which the configurations of the units shipped were not what the customer had ordered. Personnel at FLIR referred to these units as “placeholders.”

13. Under the direction of STRINGER, SAMPER and MARTIN, FLIR abused its policy for the bonded warehouse by, among other things, shipping placeholders. FLIR recognized revenue upon shipment and then later brought the placeholders back to rework them or replace them with units actually ordered by the customers. In these instances, title had not passed to the customer; FLIR retained specific performance obligations regarding the goods; and FLIR shipped incomplete equipment. Further, under the direction of the defendants, FLIR would ship units to the bonded warehouse, record a sale to a customer, and then use these same units to fulfill orders of other customers.

### **3. Side Agreements**

14. STRINGER, SAMPER and MARTIN caused FLIR to inflate its earnings and revenues through the use of side agreements, including agreements providing the customer with a right to return and/or extended payment terms.

### **4. Rental Agreements**

15. STRINGER, SAMPER and MARTIN caused FLIR to inflate its earnings and revenues through the use of rental agreements that FLIR treated for purposes of recognizing revenue as outright sales.

### **5. Contingent and Consignment Sales**

16. STRINGER, SAMPER and MARTIN caused FLIR to inflate its earnings and revenues through the use of contingent and consignment sales. Many FLIR customers were aircraft integrators responsible for assembly or customization of aircraft for their own customers (“end-users”). Because integrators only purchased FLIR’s unit as part of a package ordered by an end-user, they wanted to receive payment from the end-user before paying FLIR, rather than advancing the payment for the units on behalf of end-users. Often this arrangement led the defendants to recognize revenues based on contingencies in sales contracts between FLIR and the integrator companies, such that the integrator would hold the units on consignment and would not have to pay for the units unless and until the end-user had paid the integrator. On at least two occasions, letters containing such contingencies were redacted to conceal the true nature of the deals from the auditors.

### **6. Fraudulent Bill and Hold Sales**

17. STRINGER, SAMPER and MARTIN caused FLIR to inflate its earnings and revenues through the use of fraudulent bill and hold sales, where units were sent to the bonded

warehouse or sat in FLIR's hallways in violation of revenue recognition policies applicable to bill and hld sales. Such shipments were often called "revenue units" or "a box of rocks."

**D. The Three Fraudulent Accounting Devices**

18. SAMPER, under the supervision of STRINGER, caused FLIR to engage in the three fraudulent accounting devices.

**1. Project Inventory**

19. STRINGER and SAMPER caused FLIR to fraudulently overstate assets and understate expenses, by improperly using a suspense account known as "project inventory." Project inventory was used as a suspense account to hold returns, traded-in units, under-absorbed overhead, shutdown expenses for foreign operations, and other arbitrary entries. None of these entries were appropriate under GAAP, nor were they legitimate uses for the project inventory account.

20. By the end of 1999, project inventory overstated FLIR's assets by \$17.3 million. During the 1999 year end audit, STRINGER and SAMPER were asked by PWC to justify as legitimate assets each entry in the project inventory account, which totaled approximately \$18.1 million. STRINGER and SAMPER were able to justify only \$771,764 as assets, resulting in FLIR having to write-off \$17.3 million.

**2. Intercompany Accounts**

21. In addition to project inventory, SAMPER fraudulently used FLIR's worldwide intercompany receivable and payable accounts as a suspense account for purposes other than intercompany transactions. Because the intercompany accounts were designed for receivable and payable accounts between FLIR's operations, the balance at the end of the year should be a net zero for FLIR. SAMPER, however, used the intercompany accounts as a holding place for items that



were unusual in nature, such as restructuring costs. As a result, SAMPER caused the intercompany accounts to overstate assets by approximately \$23.6 million.

22. During the 1999 year-end audit, STRINGER and SAMPER were asked by PWC to justify the legitimacy of the \$23.6 million balance in the intercompany accounts. STRINGER and SAMPER could not justify that balance and, as a result, it was written off.

### **3. Fraudulent Use of Drop Shipments**

23. STRINGER and SAMPER caused FLIR's revenue in its Form 10-Q for the Third Quarter of 1999 to be overstated by \$4.6 million through false and fraudulent consolidation of FLIR's financial statements. Throughout 1999, SAMPER directed FLIR's efforts to consolidate the financial results of FLIR's subsidiaries on to FLIR's consolidated financial statements. SAMPER, at STRINGER's direction, in the Third Quarter of 1999 falsely included \$4.6 million worth of "drop shipments" from FLIR's Swedish subsidiary on FLIR's consolidated financial statements. The drop shipments represented equipment purportedly manufactured by the Swedish subsidiary and shipped directly to FLIR's customers. STRINGER and SAMPER knew the \$4.6 million in drop shipments from the Swedish subsidiary included in FLIR's Form 10-Q for the Third Quarter of 1999 were bogus.

#### **E. Defendants Caused FLIR To Materially Misstate Its Results in SEC Filings**

##### **1. FLIR Materially Misstated Its Results for the First Quarter Ended March 31, 1998**

24. On or about May 15, 1998, FLIR filed with the SEC its Form 10-Q for the First Quarter ended March 31, 1998. In the financial statements included in the filing, FLIR reported total revenue of \$27,699,000 and pre-tax earnings of \$411,000 for the quarter. These reported numbers

included transactions that generated revenue through the use of one or more of the six fraudulent revenue recognition devices. As a result, FLIR's Form 10-Q for the First Quarter of 1998 was materially misstated. STRINGER reviewed and SAMPER signed the Form 10-Q.

**2. FLIR Included its Overstated First Quarter Revenue and Pre-Tax Earnings in a Form S-3 Registration Statement**

25. On or about May 29, 1998, FLIR filed a registration statement with the SEC on Form S-3 registering 2.4 million shares of its common stock. As alleged above, FLIR's Form 10-Q for the First Quarter of 1998 was materially misstated. FLIR included these material misstatements in the Form S-3 registration statement. STRINGER and SAMPER signed the Form S-3 registration statement.

**3. FLIR Materially Misstated Its Results for the Second Quarter Ended June 30, 1998**

26. On or about August 12, 1998, FLIR filed with the SEC its Form 10-Q for the quarter ended June 30, 1998. In the financial statements included in FLIR's Form 10-Q, FLIR reported total revenue of \$35,072,000 and pre-tax earnings of \$3,883,000. These reported numbers included transactions that generated revenue through the use of one or more of the six fraudulent revenue recognition devices. As a result, FLIR's Form 10-Q for the Second Quarter of 1998 was materially misstated. STRINGER reviewed and SAMPER signed the Form 10-Q.

**4. FLIR Materially Misstated Its Results for the Third Quarter Ended September 30, 1998**

27. On or about November 16, 1998, FLIR filed with the SEC its Form 10-Q for the quarter ending September 30, 1998. In the financial statements included in FLIR's Form 10-Q, FLIR reported total revenue of \$41,261,000 and pre-tax earnings of \$7,166,000. These reported numbers

included transactions that generated revenue through the use of one or more of the six fraudulent revenue recognition devices. As a result, FLIR's Form 10-Q for the Third Quarter of 1998 was materially misstated. STRINGER reviewed and SAMPER signed the Form 10-Q.

**5. FLIR Materially Misstated The Accuracy of Prior Financial Statements In A Form 8-K Filed With the SEC**

28. On or about April 14, 1999, STRINGER and SAMPER caused FLIR's Form 8-K to be filed announcing and including the acquisition agreement of Inframetrics; such agreement included a representation that all of FLIR's SEC filings since December 31, 1995 did not contain or omit any untrue statement of material fact necessary in order to make the reports not misleading. Additionally, the Form 8-K included representations that each of the financial statements contained in FLIR's SEC filings: (i) complied in all material respects with the applicable published rules and regulations of the SEC; (ii) was prepared in accordance with GAAP; and (iii) fairly presented the consolidated financial position of FLIR at the respective dates of filing. SAMPER signed this Form 8-K, which was reviewed by STRINGER.

**6. FLIR Materially Misstated Its Results for the Fiscal Year Ended December 31, 1998**

29. On or about April 20, 1999, FLIR filed with the SEC its annual report on Form 10-K for the year ended December 31, 1998. The originally filed Form 10-K reported total revenue of \$153,932,000 and pre-tax earnings of \$22,192,000 for the year-end 1998. These reported numbers included transactions that generated revenue through the use of one or more of the six fraudulent revenue recognition devices. In addition to these overstatements, FLIR overstated its pre-tax earnings for the fiscal year ended December 31, 1998 by approximately \$5.6 million through double booking accounts receivable and recording additional improper adjustments to accounts receivable.

As a result, FLIR's Form 10-K for the year-end 1998 was materially misstated. STRINGER and SAMPER signed the Form 10-K.

**7. FLIR Materially Misstated Its Results for the First Quarter Ended March 31, 1999**

30. On or about May 14, 1999, FLIR filed with the SEC its Form 10-Q for the quarter ended March 31, 1999. In the financial statements included in FLIR's Form 10-Q, FLIR reported pre-tax losses of \$28,068,000. These reported numbers materially understated FLIR's losses through the use of one or more of the three fraudulent accounting devices. As a result, FLIR's Form 10-Q for the First Quarter of 1999 was materially misstated. STRINGER reviewed and SAMPER signed the Form 10-Q.

**8. FLIR Materially Misstated Its Results for the Second Quarter Ended June 30, 1999**

31. On or about August 16, 1999, FLIR filed with the SEC its Form 10-Q for the quarter ended June 30, 1999. In the financial statements included in FLIR's Form 10-Q, FLIR reported total revenue of \$42,202,000 and pre-tax earnings of \$4,188,000. These reported numbers included transactions that generated revenue through the use of one or more of the six fraudulent revenue recognition devices. These reported numbers also reflected the use of one or more of the three fraudulent accounting devices. As a result, FLIR's Form 10-Q for the Second Quarter of 1999 was materially misstated. STRINGER reviewed and SAMPER signed the Form 10-Q.

**9. FLIR's Form S-1 Registration Statement Included its Overstated 1998 and 1999 Financial Statements**

32. On or about November 10, 1999, FLIR filed a registration statement with the SEC on Form S-1 registering 2.1 million shares of its common stock for a secondary offering. As alleged

above, FLIR's Form 10-K for the year ended December 31, 1998, and the Forms 10-Q for the quarters ended March 31, 1999 and June 30, 1999, were materially misstated. FLIR included these material misstatements in the Form S-1 registration statement. STRINGER and SAMPER signed the Form S-1.

**10. FLIR Materially Misstated Its Results for the Third Quarter Ended September 30, 1999**

33. On or about November 15, 1999, FLIR filed with the SEC its Form 10-Q for the quarter ended September 30, 1999. In the financial statements included in FLIR's Form 10-Q, FLIR reported total revenue of \$54,706,000 and pre-tax earnings of \$12,564,000. These reported numbers included transactions that generated revenue through the use of one or more of the six fraudulent revenue recognition devices and the \$4.6 million worth of fictitious "drop shipments" from FLIR's Swedish subsidiary on FLIR's consolidated financial statements. These reported numbers also reflected the use of the other two fraudulent accounting devices. As a result, FLIR's Form 10-Q for the Third Quarter of 1999 was materially misstated. STRINGER reviewed and SAMPER signed the Form 10-Q.

**11. FLIR Materially Misstated the Results for the Year Ended December 31, 1999**

34. On or about April 14, 2000, FLIR filed with the SEC its annual report on Form 10-K for the year ended December 31, 1999. The Form 10-K reported revenue of \$186.4 million. As a result of the use of one or more of the fraudulent revenue recognition devices, FLIR's Form 10-K for the year-end 1999 was materially misstated. This Form 10-K was signed by STRINGER, and SAMPER assisted in the development of the financial statements that were an integral part of this filing.

**F. STRINGER, SAMPER and MARTIN Lied to FLIR's Auditors Concerning FLIR's Financial Statements**

35. As set forth more fully in Count 16, on or about April 20, 1999, STRINGER and SAMPER signed a management representation letter provided to PWC in connection with PWC's audit of FLIR's year end 1998 financial statements in which numerous materially false representations were made.

36. As set forth more fully in Count 17, on or about April 20, 1999, MARTIN signed a management representation letter provided to PWC in connection with PWC's audit of FLIR's year end 1998 financial statements in which numerous materially false representations were made.

37. As set forth more fully in Count 18, on or about November 10, 1999, STRINGER and SAMPER signed a management representation letter provided to PWC in connection with PWC's review of FLIR's interim consolidated financial statements as of March 31, 1999, June 30, 1999, and September 30, 1999 in which numerous materially false representations were made.

38. As set forth more fully in Count 19, on or about December 20, 1999, STRINGER and SAMPER signed a management representation letter provided to PWC in which they made a materially false representation.

39. As set forth more fully in Count 20, on or about December 20, 1999, MARTIN signed a management representation letter provided to PWC in which he made a materially false representation.

40. As set forth more fully in Count 21, on or about April 14, 2000, STRINGER and SAMPER signed a management representation letter provided to PWC in connection with PWC's

audit of the consolidated financial statements of FLIR as of December 31, 1999 and December 31, 1998 in which numerous materially false representations were made.

41. As set forth more fully in Count 22, on or about April 14, 2000, MARTIN signed a management representation letter provided to PWC in connection with PWC's audits of the consolidated financial statements of FLIR as of December 31, 1999 and December 31, 1998 in which numerous materially false representations were made.

**G. False Press Releases**

42. Over the period of January 1998 through in or about April 2000, STRINGER and SAMPER caused FLIR to issue false press and earnings releases that generally coincided with FLIR's quarterly or year end reporting periods.

43. On or about October 29, 1998, STRINGER and SAMPER caused FLIR to issue a press release reporting that net earnings for the third quarter ended September 30, 1998 increased 114% to a record \$5.2 million and that revenue increased 73% to a record \$41.3 million. STRINGER and SAMPER knew at the time the press release was issued that the reported revenue included transactions that generated fraudulent revenue through the use of one or more of the six fraudulent revenue recognition devices.

44. On or about February 25, 1999, STRINGER and SAMPER caused FLIR to issue a press release containing fourth quarter and year-end 1998 financial results including a headline, "1998 Revenue Increases 69%; Net Earnings Increase 137% Before Charges." STRINGER and SAMPER knew at the time the press release was issued that the reported financial results were materially misstated as a result of the use of one or more of the six fraudulent revenue recognition devices.

45. On or about October 26, 1999, STRINGER and SAMPER caused FLIR to issue a press release with a headline reporting, "FLIR Systems' Third Quarter Net Earnings Increase 49% to \$0.59 Per Diluted Share." STRINGER and SAMPER knew at the time the press release was issued that FLIR's third quarter ended September 30, 1999, financial results included revenue recognized through the use of one or more of the six fraudulent revenue recognition devices, assets materially overstated through the fraudulent use of the project inventory account, and fictitious revenue of \$4.6 million from "drop shipments" attributable to FLIR's Swedish subsidiary that never occurred.

46. In or about February 2000, STRINGER and SAMPER knew that FLIR was not going to meet analysts' earnings estimates for the Fourth Quarter of 1999. SAMPER provided STRINGER with anticipated earnings and revenue for the Fourth Quarter of 1999 based upon internal projections. STRINGER and SAMPER knew these internal projections were not supported by an audited set of financial books and records. SAMPER included these projections in a press release, reviewed and approved by Stringer, which FLIR issued on February 8, 2000 and which materially overstated FLIR's earnings and revenue for the Fourth Quarter of 1999.

#### **H. FLIR Restated its 1998 and 1999 Financial Statements Three Times**

47. As a result of STRINGER, SAMPER and MARTIN's scheme to defraud, FLIR was required to restate its financial statements as originally reported to the SEC and the public on three separate occasions.

(a) The first restatement occurred during PWC's year-end audit of FLIR's 1999 consolidated financial statements following PWC's discovery that FLIR had accounting irregularities including consolidation errors, improper inventory valuations, and improper intercompany transactions.



(b) The second restatement occurred during a review of financial statements for the third quarter ended September 30, 2000, when FLIR discovered the unsubstantiated drop ship entry made during the Third Quarter of 1999. As a result, the Third and Fourth Quarters of 1999 were restated.

(c) The third restatement occurred during AA's year-end audit of FLIR's 2000 consolidated financial statements in early 2001. Based upon the discovery by FLIR management and the SEC that certain sales transactions in 1998 and 1999 had been improperly recognized as revenue in a manner inconsistent with FLIR's revenue recognition policy, FLIR re-engaged PWC to review FLIR's 1998 and 1999 financial results. As a result of PWC's review, FLIR restated its financial statements for year-end 1998, year-end 1999, and the first three quarters of 2000.

#### **I. Defendants Submitted False Financial Information to Banks**

48. As a consequence of booking false sales through the fraudulent revenue recognition devices and masking expenses and inflating revenue through the fraudulent accounting devices, FLIR's financial statements materially misrepresented the Company's cash flow situation. The six fraudulent revenue recognition devices created serious cash flow problems because revenue was booked on non-existent sales. To cover up and conceal the cash drain, STRINGER and SAMPER increased FLIR's line of credit from the banks from \$30,000,000 at the end of 1997 to \$100,000,000 at the end of 1999. The increased line of credit was based in large part on the same false and misleading financial statements filed with the SEC and disseminated to the investing public.

#### **IV. OVERT ACTS IN FURTHERANCE OF THE CONSPIRACY**

In furtherance of the Conspiracy and to effect its unlawful objects, the following overt acts, among others, were committed by the defendants in the District of Oregon and elsewhere:

1. On or about September 28, 1998, STRINGER and MARTIN caused FLIR to ship placeholder systems to the bonded warehouse for a purported sale to the New Zealand Department of Defense.

2. On or about September 30, 1998, MARTIN caused FLIR to process a bogus sales order for four purported sales to Gannett Broadcasting.

3. On or about September 30, 1998, SAMPER and MARTIN caused FLIR to process a sales order for a purported sale to U.S. Helicopters.

4. On or about September 30, 1998, SAMPER caused a delivery date on a contingent order from U.S. Helicopters to be changed from October 30, 1998 (in the fourth quarter of 1998) to September 30, 1998 (the last day of the third quarter of 1998).

5. On or about October 29, 1998, STRINGER and SAMPER caused FLIR to issue a press release reporting that net earnings for the third quarter ended September 30, 1998 increased 114% to a record \$5.2 million and that revenue increased 73% to a record \$41.3 million. The press release also included a headline that reported nine month net earnings increased 108%.

6. On or about October 29, 1998, STRINGER, in SAMPER's presence, participated in a telephone conference call with analysts reporting the following: "Third quarter revenue increased 73% to a record \$41.3 million, compared to \$23.9 million for the third quarter of 1997. Net income rose 114% to a record \$5.2 million, or \$0.44 per diluted share on approximately 12 million diluted shares outstanding. This compares to net income of \$2.4 million, or \$0.41 per diluted share on about 6 million diluted shares outstanding in the third quarter of 1997."

7. On or about November 16, 1998, STRINGER and SAMPER caused FLIR's Third

Quarter 1998 Form 10-Q to be filed with the SEC, which included revenues purportedly generated by MARTIN's sales department.

8. On or about December 16, 1998, STRINGER and MARTIN caused a member of FLIR's sales staff to obtain two non-binding letters of intent for two purported sales to Alfonso Jaramillo Y Cia, FLIR's sales representative in Colombia.

9. On or about December 18, 1998, STRINGER, SAMPER and MARTIN caused FLIR to process a sales order for a purported sale to Total RF Marketing.

10. On or about December 21, 1998, STRINGER, SAMPER, and MARTIN caused a non-binding letter of intent from Heli-Dyne Systems, Incorporated for the Brazilian Navy to be used in generating a sales order.

11. On or about December 21, 1998, MARTIN directed a sales representative to issue a side agreement granting a right of return to obtain a purchase order from Basler Turbo.

12. On or about December 22, 1998, STRINGER executed a side agreement granting a right of return to Flight International to obtain a purchase order from Flight International.

13. On or about December 28, 1998, STRINGER, SAMPER and MARTIN caused FLIR to process a sales order related to the purported sale to Tyler Camera.

14. On or about December 28, 1998, MARTIN caused a member of FLIR's sales department to send a facsimile setting out the terms and conditions of a sale to Flight International including a term offering a right to revoke the purchase order.

15. On or about December 31, 1998, SAMPER and MARTIN caused FLIR to process a bogus sales order for a purported sale to Raytheon/Customs based on a carbon copy page of an order actually placed by Raytheon/Customs.

16. On or about December 31, 1998, SAMPER directed FLIR's sales staff to change the product specifications on a Raytheon/Customs' order to match placeholder systems existing in inventory such that they could be shipped before year end.

17. On or about December 31, 1998, STRINGER and SAMPER caused FLIR to ship placeholder systems to the bonded warehouse for a purported sale to Raytheon/SIVAM.

18. On or about January 26, 1999, SAMPER caused an audit confirmation letter to be sent to MKR Consultores in Brazil confirming an outstanding accounts receivable balance of \$573,221.

19. On or about February 14, 1999, in connection with PWC's audit of FLIR's account receivable balances greater than 60 days and over \$100,000, SAMPER met with a member of PWC's engagement team regarding the status of the Venezuela Navy receivable in which SAMPER represented that the units shipped were located at an integrator and FLIR expected payment once delivered to the end customer.

20. On or about February 14, 1999, in connection with PWC's audit of FLIR's account receivable balances greater than 60 days and over \$100,000, SAMPER met with a member of PWC's engagement team regarding the status of the WKMG receivable in which SAMPER represented that the balance of \$215,000 was paid.

21. On or about February 14, 1999, in connection with PWC's audit of FLIR's account receivable balances greater than 60 days and over \$100,000, SAMPER met with a member of PWC's engagement team regarding the status of the Radio Record receivable in which SAMPER represented that the system sold was located at Radio Record's integrator.

22. On or about February 22, 1999, SAMPER sent a letter via facsimile from FLIR in Tigard, Oregon to Felipe Jaramillo of Alfonso Jaramillo in Bogota, Colombia concerning the purported sale to Alfonso Jaramillo Y Cia. SAMPER wanted to assure Jaramillo that the account receivable confirmation "in no way affects any of the agreements that have been agreed to between FLIR Systems, Inc. and Alfonso Jaramillo Y Cia S. EN C.S."

23. On or about February 25, 1999, STRINGER and SAMPER caused FLIR to issue a press release containing fourth quarter and year end 1998 financial results including a headline "1998 Revenue Increases 69% ; Net Earnings Increase 137% Before Charges."

24. On or about February 26, 1999, STRINGER caused FLIR's General Counsel to obtain an excerpt from the Congressional Record and a letter from the U.S. State Department that STRINGER provided to PWC.

25. On or about March 3, 1999, STRINGER and SAMPER caused FLIR to issue a press release containing fraudulent fourth quarter and year-end 1998 financial results including a headline, "1998 Revenue Increases 69%; Net Earnings Increase 137% Before Charges."

26. On or about March 3, 1999, STRINGER, in SAMPER's presence, participated in a telephone conference call with analysts reporting: "One quarter revenue increased 58% to a record \$58.8 million compared to \$32.1 million for the fourth quarter of 1997. . . That income was a record \$8 million or \$0.65 per diluted share on approximately 12.3 million diluted shares outstanding."

27. On or about March 3, 1999, SAMPER sent an email to all FLIR employees thanking the employees for their contributions during 1998. He also announced that FLIR had record revenue and earnings for the 1998 fiscal year.

28. On or about March 23, 1999, in connection with PWC's audit of FLIR's account receivables, STRINGER met with a member of PWC's engagement team regarding the status of the Alfonso Jaramillo account receivable balance totaling \$4,100,000 where STRINGER represented that the reason Jaramillo would not sign the account receivable confirmation was primarily due to language and cultural barriers that caused confusion on the part of Jaramillo. STRINGER further represented that the sale was related to a drug interdiction program sponsored by the United States government and provided to PWC a U.S. State Department letter and excerpt from the Congressional Record.

29. On or about April 14, 1999, STRINGER and SAMPER caused FLIR's Form 8-K to be filed announcing and including the acquisition agreement of Inframetrics; such agreement included a representation that all of FLIR's SEC filings since December 31, 1995 did not contain or omit any untrue statement of material fact necessary in order to make the reports not misleading. Additionally, the Form 8-K included representations that each of the financial statements contained in FLIR's SEC filings: (i) complied in all material respects with the applicable published rules and regulations of the SEC; (ii) was prepared in accordance with GAAP; and (iii) fairly presented the consolidated financial position of FLIR at the respective dates of filing. SAMPER signed this 8-K, which was reviewed by STRINGER.

30. On or about April 19, 1999, STRINGER and SAMPER signed FLIR's 1998 Form 10-K Annual Report for the Year Ending December 31, 1998.

31. On or about April 20, 1999, STRINGER and SAMPER caused FLIR's 1998 Form 10-K to be filed with the SEC, which included revenue purportedly generated by MARTIN's sales department.

32. On or about April 20, 1999, STRINGER and SAMPER signed a management representation letter provided to PWC in connection with PWC's fiscal year end 1998 audit of FLIR in which the following representations were made: (i) FLIR's financial statements were fairly presented in conformance with GAAP; (ii) there were no material transactions that had not been properly recorded in the accounting records; (iii) the account receivables represented bona fide claims; (iv) each element required for revenue recognition on bill and hold sales was met, including the following transactions: Alfonso Jaramillo, Heli-Dyne/Brazilian Navy, New Zealand Defense, and Basler Turbo; (v) no side agreements or oral agreements existed that significantly modified the terms of purchase; (vi) no rights of returns had been granted; (vii) all sales terms had been fully disclosed; and (viii) no fraud had occurred.

33. On or about April 20, 1999, MARTIN signed a management representation letter provided to PWC in connection with PWC's fiscal year end 1998 audit of FLIR in which the following representations were made: (i) each element required for revenue recognition on bill and hold sales was met, including the following transactions: Alfonso Jaramillo, Heli-Dyne/Brazilian Navy, New Zealand Defense, and Basler Turbo; (ii) no side agreements or oral agreements existed that significantly modified the terms of purchase; (iii) no rights of returns had been granted; and, (iv) all sales terms had been fully disclosed.

34. On or about April 21, 1999, STRINGER issued a memorandum to all FLIR employees discussing the results for the First Quarter of 1999.

35. On or about May 6, 1999, SAMPER sent an email message to a FLIR employee instructing the employee not to reverse the Heli-Dyne/Brazilian Navy order and stating that a

previous message in the email chain was accurate in stating that only Ken Stringer could issue a reversal of revenue.

36. On or about May 7, 1999, in connection with PWC's interim review of the first quarter ended March 31, 1999, SAMPER met with a member of PWC regarding the status of the Heli-Dyne/Petroleum Helicopter account receivable balance totaling \$600,000.

37. On or about May 14, 1999, STRINGER and SAMPER caused FLIR's First Quarter 1999 Form 10-Q to be filed with the SEC, which included revenue purportedly generated by MARTIN's sales department.

38. On or about June 24, 1999, MARTIN caused a placeholder unit to be shipped to KCAL.

39. On or about July 6, 1999, FLIR administrative personnel sent a copy of a facsimile to STRINGER and MARTIN received from Provincial Airlines concerning the purported sale to Provincial Airlines.

40. On or about July 23, 1999, SAMPER sent an email to a FLIR employee asking the employee to change the name for "Ship in Place" to something benign like "Customer Owned Units" to avoid the negative impression.

41. On or about July 7, 1999, STRINGER, in SAMPER's presence, participated in a telephone conference call with analysts, reporting: "Consolidated revenue for the second quarter ended June 30 was \$42.2 million. . . . Net earnings for the second quarter were \$2.8 million or \$0.20 per diluted share. . . ."



42. On or about August 16, 1999, STRINGER and SAMPER caused FLIR's Second Quarter 1999 Form 10-Q to be filed with the SEC, which included revenue purportedly generated by MARTIN's sales department.

43. On or about September 30, 1999, STRINGER, SAMPER and MARTIN caused FLIR to process a Sales Order for a purported sale to Bell Helicopter/Royal Saudi Air Force.

44. On or about September 30, 1999, SAMPER caused an invoice to be generated for United Arab Emirates/GHQ Armed Forces totaling \$1,000,000 based on a non-binding letter of intent.

45. On or about October 26, 1999, STRINGER and SAMPER caused FLIR to issue a press release with a headline reporting "FLIR Systems' Third Quarter Net Earnings Increase 49% to \$0.59 Per Diluted Share."

46. On or about October 26, 1999, STRINGER, in SAMPER's presence, participated in a telephone conference call with analysts, reporting: "Net earnings for the third quarter ended September 30, 1999 increased 49% to \$8.5 million, or \$0.59 per diluted share. As Bob [Daltry] said, that's a new third quarter record. . . . Revenue for the quarter was \$54.7 million. . . . revenue for the nine-month period totaled \$131.3 million. . . ."

47. On or about November 10, 1999, STRINGER and SAMPER caused FLIR's S-1 Registration Statement to be filed with the SEC.

48. On or about November 10, 1999, STRINGER and SAMPER signed a management representation letter provided to PWC in connection with PWC's review of FLIR's interim consolidated financial statements as of March 31, 1999, June 30, 1999, and September 30, 1999 in which the following representations were made: (i) the financial statements were fairly presented in

conformity with GAAP; and (ii) all disclosures necessary for such fair presentation and disclosures otherwise required to be included by the laws and regulations to which FLIR was subjected had occurred.

49. On or about November 15, 1999, STRINGER and SAMPER caused FLIR's Third Quarter 1999 Form 10-Q to be filed with the SEC, which included revenue purportedly generated by MARTIN's sales department.

50. On or about December 20, 1999, STRINGER and SAMPER signed a management representation letter provided to PWC in which STRINGER and SAMPER represented that no information had come to their attention that would cause them to believe that previous representations made in the management representation letter signed on April 20, 1999 should be modified.

51. On or about December 20, 1999, MARTIN signed a management representation letter provided to PWC in which MARTIN represented that no information had come to his attention that would cause him to believe that previous representations made in the management representation letter signed on April 20, 1999 should be modified.

52. On or about February 8, 2000, SAMPER signed a letter sent by PWC to Heli-Dyne Systems requesting a confirmation of Heli-Dyne's balance payable to FLIR related to a purported sale to the Brazilian Navy.

53. On or about February 8, 2000, STRINGER and SAMPER caused FLIR to issue a press release concerning FLIR's expected financial performance for the Fourth Quarter of 1999 announcing that FLIR expected to report net earnings approximately 8-12% ahead of net earnings for the Fourth Quarter of 1998.

54. On or about February 8, 2000, STRINGER and SAMPER caused FLIR's Form 8-K to be filed with the SEC, which included the announcement in the press release issued the same day that FLIR expected to report net earnings for the Fourth Quarter of 1999 approximately 8-12% ahead of net earnings for the Fourth Quarter of 1998.

55. On or about February 25, 2000, STRINGER sent an email to MARTIN and another FLIR executive regarding the Bell/Royal Saudi Air Force proposal breaking down the price, commissions, cost of goods sold, and FLIR's net margin.

56. On or about March 6, 2000, STRINGER and SAMPER caused FLIR to issue a press release announcing that FLIR's results for the Fourth Quarter of 1999 were expected to be materially below FLIR's previously announced expectations.

57. On or about March 6, 2000, STRINGER and SAMPER caused FLIR's Form 8-K to be filed with the SEC, which included the announcement contained in the press release issued the same day that FLIR's results for the Fourth Quarter of 1999 were expected to be materially below FLIR's previously announced expectations.

58. On or about March 29, 2000, in connection with PWC's audit of FLIR's account receivables during the 1999 year-end audit, SAMPER met with a member of PWC's engagement team regarding the status of the Total RF Marketing account receivable totaling \$467,810 in which SAMPER represented that the payment terms were changed in 1999 whereby FLIR agreed to be paid based on rental revenue.

59. On or about March 29, 2000, in connection with PWC's audit of FLIR's account receivables during the 1999 year end audit, STRINGER met with a member of PWC's engagement team regarding the status of the Total RF Marketing account receivable balance totaling \$467,810 in

which STRINGER represented that the balance was fully collectible because FLIR could insist that Total RF sell the systems, instead of leasing them, in order to pay FLIR.

60. On or about March 29, 2000, in connection with PWC's audit of FLIR's account receivables during the 1999 year end audit, SAMPER met with a member of PWC's engagement team regarding the status of the Tyler Camera Systems account receivable balance totaling \$1,190,687 in which SAMPER represented that the payment terms were changed in 1999 whereby FLIR agreed to be paid based on rental revenue.

61. On or about April 12, 2000, STRINGER sent an email message to members of FLIR's Board of Directors regarding bond revenue adjustments and restatements.

62. On or about April 14, 2000, STRINGER and SAMPER signed a management representation letter provided to PWC in connection with PWC's audit of the consolidated financial statements of FLIR as of December 31, 1999 and December 31, 1998 in which the following representations, among others, were made: (i) FLIR's consolidated financial statements were fairly presented in conformance with GAAP; (ii) there were no material transactions that had not been properly recorded in the accounting records; (iii) there was no fraud involving management or employees who have significant roles in FLIR's internal controls or fraud involving others that could have a material effect on the consolidated financial statements; (iv) violations or possible violations of laws or regulations whose effects should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency have been properly recorded or disclosed; (v) with respect to revenue recognized in 1999, 1998, and 1997, FLIR completely delivered its products to its customers and fulfilled obligations related to each sale, and therefore, revenue

recognition as of December 31, 1999, 1998, and 1997 was appropriate; and, (vi) there were no side letters or oral agreements with customers that would significantly modify or supersede the terms of the purchase orders and/or contracts with these customers for purposes of determining the timing of revenue recognition.

63. On or about April 14, 2000, MARTIN signed a management representation letter provided to PWC in connection with PWC's audits of the consolidated financial statements of FLIR as of December 31, 1999 and December 31, 1998 in which the following representations, among others, were made: (i) with respect to revenue recognized in 1999, 1998, and 1997, FLIR completely delivered its products to its customers and fulfilled obligations related to each sale, and therefore, revenue recognition as of December 31, 1999, 1998, and 1997 was appropriate; and, (ii) there were no side letters or oral agreements with customers that would significantly modify or supersede the terms of the purchase orders and/or contracts with these customers for purposes of determining the timing of revenue recognition.

64. To the extent not described herein, the acts constituting the mail and wire fraud as described in Counts 24-47 are additional overt acts.

**All in violation of Title 18, United States Code, Section 371.**

**COUNT 2**  
(Fraud In Connection With  
The Purchase And Sale Of Securities)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment,

and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. Beginning in or about September 1998, the exact time being unknown to the Grand Jury, and continuing thereafter up to and including April 2000, within the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, along with others, known and unknown, did unlawfully, willfully, and knowingly, directly and indirectly, by use of the means and instrumentalities of interstate commerce, the mails, and the facilities of national securities exchanges, use and employ manipulative and deceptive devices and contrivances in connection with the purchase and sale of a security, in contravention of Rule 10b-5 (Title 17, Code of Federal Regulations, Section 240.10b-5) of the rules and regulations promulgated by the SEC; to wit, in that the defendants:

- (a) employed devices, schemes, and artifices to defraud;
- (b) made and caused to be made untrue statements of material facts;
- (c) omitted to state material facts necessary in order to make statements not misleading in light of circumstances under which they were made; and
- (d) engaged in acts, practices, and courses of business which operated as a fraud and deceit upon investors who purchased and sold shares of FLIR stock and other FLIR investments.

**All in violation of Title 15, United States Code, Sections 78j(b) and 78ff; Title 17, Code of Federal Regulations, Section 240.10b-5; and Title 18, United States Code, Section 2.**

**COUNT 3**

(False SEC Filing for Quarter Ended September 30, 1998)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about November 16, 1998, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, in a Form 10-Q filed with the SEC for the period ended September 30, 1998, did knowingly and willfully make and cause FLIR to (a) make untrue statements of material fact and (b) omit to state material facts necessary to make the statements made not misleading.

3. Specifically, the Form 10-Q:

(a) Falsely reported sales revenues that were generated through one or more of the fraudulent revenue recognition devices; and

(b) Omitted to disclose that those fraudulent entries were made in the books and records of the Company.

**All in violation of Title 15, United States Code, Sections 78m(a) and 78ff; Title 17, Code of Federal Regulations, Sections 240.12b-20, 240.13a-13 and 240.13b2-2; and Title 18, United States Code, Section 2.**

**COUNT 4**

(False SEC Filing for Fiscal Year Ended December 31, 1998)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about April 20, 1999, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, in a Form 10-K filed with the SEC for the fiscal year ended December 31, 1998, did knowingly and willfully make and cause FLIR to (a) make untrue statements of material fact and (b) omit to state material facts necessary to make the statements made not misleading.

3. Specifically, the Form 10-K:

(a) Falsely reported sales revenue that was generated through one or more of the fraudulent revenue recognition devices; and

(b) Omitted to disclose that those fraudulent entries were made in the books and records of the Company.

**All in violation of Title 15, United States Code, Sections 78m(a) and 78ff; Title 17, Code of Federal Regulations, Sections 240.12b-20, 240.13a-1 and 240.13b2-2; and Title 18, United States Code, Section 2.**



**COUNT 5**

(False SEC Filing for Quarter Ended March 31, 1999)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about May 14, 1999, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III, and  
J. MARK SAMPER**

aided and abetted by each other, in a Form 10-Q filed with the SEC for the period ended March 31, 1999, did knowingly and willfully make and cause FLIR to (a) make untrue statements of material fact and (b) omit to state material facts necessary to make the statements made not misleading.

3. Specifically, the Form 10-Q:

(a) Falsely reported FLIR's assets and expenses through the use of one or more of the fraudulent accounting devices; and

(b) Omitted to disclose that those fraudulent entries were made in the books and records of the Company.

**All in violation of Title 15, United States Code, Sections 78m(a) and 78ff; Title 17, Code of Federal Regulations, Sections 240.12b-20, 240.13a-13 and 240.13b2-2; and Title 18, United States Code, Section 2.**

**COUNT 6**  
(False SEC Filing for Quarter Ended June 30, 1999)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about August 16, 1999, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, in a Form 10-Q filed with the SEC for the period ended June 30, 1999, did knowingly and willfully make and cause FLIR to (a) make untrue statements of material fact and (b) omit to state material facts necessary to make the statements made not misleading.

3. Specifically, the Form 10-Q:

(a) Falsely reported sales revenue through one or more of the fraudulent revenue recognition devices;

(b) Falsely reported FLIR's assets and expenses through one or more of the fraudulent accounting devices; and

(c) Omitted to disclose that those fraudulent entries were made in the books and records of the Company.

**All in violation of Title 15, United States Code, Sections 78m(a) and 78ff; Title 17, Code of Federal Regulations, Sections 240.12b-20, 240.13a-13 and 240.13b2-2; and Title 18, United States Code, Section 2.**

**COUNT 7**

(False SEC Filing for Quarter Ended September 30, 1999)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about November 15, 1999, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, in a Form 10-Q filed with the SEC for the period ended September 30, 1999, did knowingly and willfully make and cause FLIR to (a) make untrue statements of material fact and (b) omit to state material facts necessary to make the statements made not misleading.

3. Specifically, the Form 10-Q:

(a) Falsely reported sales revenue through one or more of the fraudulent revenue recognition devices;

(b) Falsely reported FLIR's revenue, assets, and expenses through the use of one or more of the fraudulent accounting devices; and

(c) Omitted to disclose that those fraudulent entries were made in the books and records of the Company.

**All in violation of Title 15, United States Code, Sections 78m(a) and 78ff; Title 17, Code of Federal Regulations, Sections 240.12b-20, 240.13a-13 and 240.13b2-2; and Title 18, United States Code, Section 2.**

**COUNT 8**

(False SEC Filing for Fiscal Year Ended December 31, 1999)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about April 14, 2000, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, in a Form 10-K filed with the SEC for the fiscal year ended December 31, 1999, did knowingly and willfully make and cause FLIR to (a) make untrue statements of material fact and (b) omit to state material facts necessary to make the statements made not misleading.

3. Specifically, the Form 10-K:

(a) Falsely reported sales revenue through one or more of the fraudulent revenue recognition devices; and

(b) Omitted to disclose that those fraudulent entries were made in the books and records of the Company.

**All in violation of Title 15, United States Code, Sections 78m(a) and 78ff; Title 17, Code of Federal Regulations, Sections 240.12b-20, 240.13a-1 and 240.13b2-2; and Title 18, United States Code, Section 2.**

**COUNTS 9 - 13**  
(False Statements With The SEC)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about the dates set forth below, in the District of Oregon and elsewhere, in a matter within the jurisdiction of the United States Securities and Exchange Commission (SEC), an agency within the executive branch of the Government of the United States, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, knowingly and willfully made and used, and caused to be made and used, a false writing and document knowing same to contain materially false, fictitious, and fraudulent statements and entries, in that the defendants, who were then and there senior corporate officers of FLIR Systems, Incorporated, caused Quarterly Reports (Forms 10-Q) and Annual Report (Forms 10-K) to be filed with the SEC on behalf of FLIR Systems, Incorporated, which said Reports contained false financial statements that materially and substantially misstated FLIR's reported financial performance, when the defendants well knew and believed that FLIR's actual financial performance was substantially less favorable than that reported on said Forms, as set forth below:

COUNT	APPROXIMATE DATE OF FILING	FORM	PERIOD
9	11/16/1998	10-Q	3 <sup>RD</sup> Q, FY 98
10	04/20/1999	10-K	FY 98

11	08/16/1999	10-Q	2 <sup>ND</sup> Q, FY 99
12	11/15/1999	10-Q	3 <sup>RD</sup> Q, FY 99
13	04/14/2000	10-K	FY 99

**All in violation of Title 18, United States Code, Sections 1001(a)(3) and 2.**

**COUNT 14**

(Falsifying Books, Records, and Accounts)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. Beginning in or about September 1998, the exact time being unknown to the Grand Jury, and continuing thereafter up to and including April 2000, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, knowingly and willfully, directly and indirectly, falsified and caused to be falsified books, records, and accounts of FLIR, which, in reasonable detail, were required to accurately and fairly reflect the transactions and dispositions of the assets of FLIR, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.

**All in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5) and 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-1, and Title 18, United States Code, Section 2.**

**COUNT 15**  
(Circumventing Internal Accounting Controls)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. Beginning in or about September 1998, the exact time being unknown to the Grand Jury, and continuing thereafter up to and including April 2000, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, knowingly and willfully circumvented and caused others to circumvent the system of accounting controls required to be devised and maintained to provide assurances that the transactions of FLIR, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, were recorded as necessary to permit preparation of financial statements in conformity with GAAP.

**All in violation of Title 15, United States Code, Sections 78m(b)(2)(B), 78m(b)(5) and 78ff, and Title 18, United States Code, Section 2.**

**COUNT 16**  
(False Statements to Accountants of a Publicly-Traded Company)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and

incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about April 20, 1999, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III, and  
J. MARK SAMPER**

aided and abetted by each other, knowingly and willfully caused to be made a materially false and misleading statement, and omitted to state material facts necessary in order to make a statement made, in light of the circumstances under which the statement was made, not misleading, to FLIR's accountants in connection with the audit, review and examination of the financial statements of FLIR, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, required by law to be made and the preparation and filing of documents and reports, namely FLIR's 1998 Form 10-K, required to be filed with the SEC pursuant to rules and regulations enacted by the SEC. Specifically, STRINGER and SAMPER falsely represented to FLIR's accountants in a letter dated April 20, 1999, that, among other matters, (a) FLIR's financial statements were fairly presented in conformance with GAAP; (b) there were no material transactions that had not been properly recorded in the accounting records; (c) the account receivables represented bona fide claims; (d) each element required for revenue recognition on bill and hold sales was met; (e) no side agreements or oral agreements existed that significantly modified the terms of purchase; (f) no rights of returns had been granted; (g) all sales terms had been fully disclosed; and (h) no fraud had occurred.



3. In fact, STRINGER and SAMPER well knew:
- (a) FLIR's financial statements were not fairly presented in conformity with GAAP;
  - (b) There were material transactions, agreements and accounts that were not properly recorded;
  - (c) Receivables recorded in the financial statements did not represent bona fide claims;
  - (d) FLIR's senior management with significant roles in FLIR's internal controls had been involved in fraud; and,
  - (e) The requirements for bill and hold transactions had not been satisfied for specific transactions and revenue had been falsely and fraudulently recognized for those transactions.

**All in violation of Title 15, United States Code, Sections 78m(a), 78m(b)(2), 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2; and Title 18, United States Code, Section 2.**

#### **COUNT 17**

(False Statements to Accountants of a Publicly-Traded Company)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about April 20, 1999, in the District of Oregon and elsewhere, the defendant,

**WILLIAM N. MARTIN**

knowingly and willfully caused to be made a materially false and misleading statement, and omitted

to state material facts necessary in order to make a statement made, in light of the circumstances under which the statement was made, not misleading, to FLIR's accountants in connection with the audit, review and examination of the financial statements of FLIR, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, required by law to be made and the preparation and filing of documents and reports, namely FLIR's 1998 Form 10-K, required to be filed with the SEC pursuant to rules and regulations enacted by the SEC. Specifically, MARTIN falsely represented to FLIR's accountants in a letter dated April 20, 1999, that, among other matters: (a) FLIR had fulfilled all obligations related to every sale sent to the bonded warehouse; (b) none of the products at the bonded warehouse would be returned to FLIR for a credit to the customer; (c) risk of ownership had transferred for units in the bonded warehouse; (d) the customer had made a fixed commitment to purchase goods via a written purchase order; (e) PWC had been provided with complete customer contract files for all requested transactions; (f) there were no side letters or oral agreements with customers that would significantly modify or supersede the terms of the purchase orders for purposes of determining the timing of revenue recognition; (g) there were no rights of return for any products granted by FLIR; (h) there were no contingent sales; (i) all sales terms had been fully disclosed to PWC; and (j) revenue recognition for transactions listed in the letter was appropriate.

3. In fact, as MARTIN well knew:

(a) FLIR had not fulfilled all obligations related to every sale sent to the bonded warehouse;

(b) Products at the bonded warehouse would be returned to FLIR for a credit to the customer;

- (c) Risk of ownership had not transferred for units in the bonded warehouse;
- (d) Customers had not made a fixed commitment to purchase goods via a written purchase order;
- (e) PWC had not been provided with complete customer contract files for all requested transactions;
- (f) There were side letters or oral agreements with customers that would significantly modify or supersede the terms of the purchase orders for purposes of determining the timing of revenue recognition;
- (g) There were rights of return for products granted by FLIR;
- (h) There were contingent sales;
- (i) All sales terms had not been fully disclosed to PWC; and
- (j) Revenue recognition for transactions listed in the letter was not appropriate.

**All in violation of Title 15, United States Code, Sections 78m(a), 78m(b)(2), 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2.**

### **COUNT 18**

(False Statements to Accountants of a Publicly-Traded Company)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about November 10, 1999, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III, and  
J. MARK SAMPER**

aided and abetted by each other, knowingly and willfully caused to be made a materially false and misleading statement, and omitted to state material facts necessary in order to make a statement made, in light of the circumstances under which the statement was made, not misleading, to FLIR's accountants in connection with the audit, review and examination of the financial statements of FLIR, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, required by law to be made and the preparation and filing of documents and reports, namely FLIR's S-1 Registration Statement, required to be filed with the SEC pursuant to rules and regulations enacted by the SEC. Specifically, STRINGER and SAMPER falsely represented to FLIR's accountants in a letter dated November 10, 1999, that (a) FLIR's financial statements for the first, second and third quarters of 1999 were fairly presented in conformity with GAAP; and (b) no events occurred subsequent to the interim balance sheet dates of March 31, 1999, June 30, 1999, and September 30, 1999 that would require adjustment or disclosure in the financial statements.

3. In fact, STRINGER and SAMPER well knew:

(a) FLIR's financial statements for the first, second and third quarters of 1999 were not fairly presented in conformity with GAAP; and

(b) Events occurred subsequent to the interim balance sheet dates of March 31, 1999, June 30, 1999, and September 30, 1999 that would require adjustment or disclosure in the financial statements.

**All in violation of Title 15, United States Code, Sections 78m(a), 78m(b)(2), 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2; and Title 18, United States Code, Section 2.**

## **COUNT 19**

(False Statements to Accountants of a Publicly-Traded Company)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about December 20, 1999, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III, and  
J. MARK SAMPER**

aided and abetted by each other, knowingly and willfully caused to be made a materially false and misleading statement, and omitted to state material facts necessary in order to make a statement made, in light of the circumstances under which the statement was made, not misleading, to accountants of FLIR, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, in connection with the audit, review and examination of the financial statements of FLIR, required by law to be made and the preparation and filing of documents and reports required to be filed with the SEC pursuant to rules and regulations enacted by the SEC. Specifically, STRINGER and SAMPER falsely represented to FLIR's accountants in a letter dated December 20, 1999, that no information had come to their attention that would cause them to believe that previous representations made in the management representation letter signed on April 20, 1999 should be modified.

3. In fact, as STRINGER and SAMPER well knew, information had come to their attention that would cause them to believe that previous representations made in the management representation letter signed on April 20, 1999 should be modified.

**All in violation of Title 15, United States Code, Sections 78m(a), 78m(b)(2), 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2; and Title 18, United States Code, Section 2.**

**COUNT 20**

(False Statements to Accountants of a Publicly-Traded Company)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about December 20, 1999, in the District of Oregon and elsewhere, the defendant,

**WILLIAM N. MARTIN**

knowingly and willfully caused to be made a materially false and misleading statement, and omitted to state material facts necessary in order to make a statement made, in light of the circumstances under which the statement was made, not misleading, to accountants of FLIR, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, in connection with the audit, review and examination of the financial statements of FLIR required by law to be made and the preparation and filing of documents and reports required to be filed with the SEC pursuant to rules and regulations enacted by the SEC. Specifically, MARTIN falsely represented to FLIR's accountants in a letter dated December 20, 1999, that no information had come to his

attention that would cause him to believe that previous representations made in the management representation letter signed on April 20, 1999 should be modified.

3. In fact, as MARTIN well knew, information had come to his attention that would cause him to believe that previous representations made in the management representation letter signed on April 20, 1999 should be modified.

**All in violation of Title 15, United States Code, Sections 78m(a), 78m(b)(2), 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2.**

**COUNT 21**

(False Statements to Accountants of a Publicly-Traded Company)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about April 14, 2000, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III, and  
J. MARK SAMPER**

aided and abetted by each other, knowingly and willfully caused to be made a materially false and misleading statement, and omitted to state material facts necessary in order to make a statement made, in light of the circumstances under which the statement was made, not misleading, to accountants of FLIR, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, in connection with the audit, review and examination of the financial statements of FLIR required by law to be made, namely PWC's audit of the consolidated financial statements of FLIR as of December 31, 1999 and December 31, 1998, and the preparation

and filing of documents and reports required to be filed with the SEC pursuant to rules and regulations enacted by the SEC. Specifically, STRINGER and SAMPER falsely represented to FLIR's accountants in a letter dated April 14, 2000, that, among other matters, (a) FLIR's consolidated financial statements were fairly presented in conformance with GAAP; (b) there were no material transactions that had not been properly recorded in the accounting records; (c) there was no fraud involving management or employees who have significant roles in FLIR's internal controls or fraud involving others that could have a material effect on the consolidated financial statements; (d) violations or possible violations of laws or regulations whose effects should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency have been properly recorded or disclosed; (e) with respect to revenue recognized in 1999, 1998, and 1997, FLIR completely delivered its products to its customers and fulfilled obligations related to each sale, and therefore, revenue recognition as of December 31, 1999, 1998, and 1997 was appropriate; and, (f) there were no side letters or oral agreements with customers that would significantly modify or supersede the terms of the purchase orders and/or contracts with these customers for purposes of determining the timing of revenue recognition.

3. In fact, as STRINGER and SAMPER well knew:

(a) FLIR's consolidated financial statements were not fairly presented in conformance with GAAP;

(b) There were material transactions that had not been properly recorded in the accounting records;



(c) There was fraud involving management or employees who had significant roles in FLIR's internal controls or fraud involving others that could have a material effect on the consolidated financial statements;

(d) Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency had not been properly recorded or disclosed;

(e) With respect to revenue recognized in 1999, 1998, and 1997, FLIR had not completely delivered its products to its customers and fulfilled obligations related to each sale, and therefore, revenue recognition as of December 31, 1999, 1998, and 1997 was not appropriate; and

(f) There were side letters or oral agreements with customers that would significantly modify or supersede the terms of the purchase orders and/or contracts with these customers for purposes of determining the timing of revenue recognition.

**All in violation of Title 15, United States Code, Sections 78m(a), 78m(b)(2), 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2; and Title 18, United States Code, Section 2.**

## **COUNT 22**

(False Statements to Accountants of a Publicly-Traded Company)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about April 14, 2000, in the District of Oregon and elsewhere, the defendant,

**WILLIAM N. MARTIN**

knowingly and willfully caused to be made a materially false and misleading statement, and omitted to state material facts necessary in order to make a statement made, in light of the circumstances under which the statement was made, not misleading, to accountants of FLIR, an issuer of a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, in connection with the audit, review and examination of the financial statements of FLIR required by law to be made, namely PWC's audit of the consolidated financial statements of FLIR as of December 31, 1999 and December 31, 1998, and the preparation and filing of documents and reports required to be filed with the SEC pursuant to rules and regulations enacted by the SEC. Specifically, MARTIN falsely represented to FLIR's accountants in a letter dated April 14, 2000, that, among other things: (a) with respect to revenue recognized in 1999, 1998, and 1997, FLIR completely delivered its products to its customers and fulfilled obligations related to each sale, and therefore, revenue recognition as of December 31, 1999, 1998, and 1997 was appropriate; and (b) there were no side letters or oral agreements with customers that would significantly modify or supersede the terms of the purchase orders and/or contracts with these customers for purposes of determining the timing of revenue recognition.

3. In fact, as MARTIN well knew:

(a) With respect to revenue recognized in 1999, 1998, and 1997, FLIR had not completely delivered its products to its customers and fulfilled obligations related to each sale, and therefore, revenue recognition as of December 31, 1999, 1998, and 1997 was not appropriate; and

(b) There were side letters or oral agreements with customers that would significantly modify or supersede the terms of the purchase orders and/or contracts with these customers for purposes of determining the timing of revenue recognition.

**All in violation of Title 15, United States Code, Sections 78m(a), 78m(b)(2), 78ff; Title 17, Code of Federal Regulations, Section 240.13b2-2.**

**COUNT 23**  
(False Registration Statement)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about November 10, 1999, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, unlawfully, willfully and knowingly, by the use of any means or instruments of transportation or communications in interstate commerce or by use of the mails, in a registration statement filed by FLIR under the Securities Act of 1933 with respect to stock to be issued in conjunction with a secondary offering of FLIR securities, did employ a device, scheme and artifice to defraud, did make and cause to be made untrue statements of material fact, and omit to state and cause to be omitted material facts required to be stated therein and necessary to make the statements made not misleading, to obtain money and property, and did engage in a transaction,

practice and course of business that operated and would operate as a fraud and deceit upon the purchaser, including that each of the Forms 10-Q and 10-K incorporated into the registration statement contained materially false statements regarding the following:

(a) FLIR's revenue and earnings for the fiscal year ended December 31, 1998, the quarter ended March 31, 1999 and the quarter ended June 30, 1999; and

(b) FLIR's assets and expenses for the quarters ended March 31, 1999 and June 30, 1999.

**All in violation of Title 15, United States Code, Sections 77q(a) and 77x; and Title 18, United States Code, Section 2.**

**COUNTS 24-36**  
(Mail Fraud)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. Beginning in or about January 1998, the exact time being unknown to the Grand Jury, and continuing thereafter up to and including at least April 2000, in the District of Oregon and elsewhere, the defendants,

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, did knowingly and intentionally devise and intend to devise a scheme and artifice to defraud FLIR, its Board of Directors, its shareholders, its auditors, the SEC,

and the investing public and to obtain money and property of another by means of false and fraudulent pretenses, representations and promises, well knowing at the time that the pretenses, representations, and promises were false when made.

3. On or about the dates listed below, in the District of Oregon and elsewhere, defendants, aided and abetted by each other, for the purpose of executing the aforementioned scheme and attempting to do so, and to obtain money and property by means of false and fraudulent pretenses, representations and promises, knowingly caused to be placed in authorized depositories for mail located in Portland, Oregon audit confirmation letters or FLIR invoices to be sent and delivered by the United States Postal Service or by commercial interstate carrier to FLIR's customers or purported customers at the locations listed below, each such use of mails being a separate count of this Indictment:

COUNT	DATE	THING/MATTER MAILED/RECEIVED	FLIR AGENT / CUSTOMER	ORIGIN	DESTINATION
24	01/26/1999	Confirmation Letter	Basler Turbo Conversions	Portland, OR	Oshkosh, WI
25	01/26/1999	Confirmation Letter	Heli-Dyne Systems	Portland, OR	Hurst, TX
26	01/26/1999	Confirmation Letter	New Zealand Defense	Portland, OR	Washington, D.C.
27	01/26/1999	Confirmation Letter	Total RF Marketing	Portland, OR	Bensalem, PA
28	01/26/1999	Confirmation Letter	MKR Consultores	Portland, OR	Sao Paulo, Brazil
29	10/26/1998	FLIR Invoice (S/O # 14501)	WKMG-TV	Portland, OR	Orlando, FL
30	12/30/1998	FLIR Invoice (S/O #15020)	Flight International	Portland, OR	Newport News, VA
31	12/31/1998	FLIR Invoice (S/O #15031)	Heli-Dyne Systems	Portland, OR	Hurst, TX

32	12/31/1998	FLIR Invoice (S/O # 15021)	Raytheon Aerospace Co.	Portland, OR	Atlanta, GA
33	12/31/1998	FLIR Invoice (S/O # 15065)	Raytheon Aerospace Co.	Portland, OR	Atlanta, GA
34	12/31/1998	FLIR Invoice (S/O # 15023)	Tyler Camera Systems	Portland, OR	Van Nuys, CA
35	04/20/1999	FLIR Invoice (S/O # 100129)	KCAL-TV	Portland, OR	Los Angeles, CA
36	06/17/1999	FLIR Invoice (S/O # 100364)	Provincial Aviation	Portland, OR	St. Johns, Newfoundland, Canada

**All in violation of Title 18, United States Code, Sections 2 and 1341.**

**COUNTS 37-41**  
(Wire Fraud)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. Beginning in or about January 1998, the exact time being unknown to the Grand Jury, and continuing thereafter up to and including at least April 2000, in the District of Oregon and elsewhere, the defendants

**J. KENNETH STRINGER, III,  
J. MARK SAMPER, and  
WILLIAM N. MARTIN**

aided and abetted by each other, did knowingly and intentionally devise and intend to devise a scheme and artifice to defraud FLIR, its Board of Directors, its shareholders, its auditors, the SEC,

and the investing public, and to obtain money and property of another by means of false and fraudulent pretenses, representations and promises, well knowing at the time that the pretenses, representations, and promises were false when made.

3. On or about the dates listed below, in the District of Oregon and elsewhere, defendants, aided and abetted by each other, for the purpose of executing the aforementioned scheme and artifice to defraud and for obtaining money and property by means of false and fraudulent pretenses, representations, and promises, did knowingly cause to be transmitted in interstate commerce by means of writings, wire communications, facsimiles, signals and sounds, that is, FLIR's audit confirmation letters or follow-up letter, across state lines, from FLIR in Portland, Oregon to FLIR's customers or purported customers, each letter sent interstate being a separate count in the Indictment:

COUNT	DATE	WIRE COMMUNICATION	FLIR CUSTOMER	ORIGIN	DESTINATION
37	02/09/1999	Confirmation Letter	Heli-Dyne Systems	Portland, OR	Hurst, TX
38	02/09/1999	Confirmation Letter	Raytheon Aerospace Co.	Portland, OR	Atlanta, GA
39	02/12/1999	Confirmation Letter	Tyler Camera Systems	Portland, OR	Van Nuys, CA
40	2/22/1999	Confirmation Follow-Up Letter	Alfonso Jaramillo	Portland, OR	Bogota, Columbia
41	03/16/2000	Confirmation Letter	Tyler Camera Systems	Portland, OR	Van Nuys, CA

**All in violation of Title 18, United States Code, Sections 2 and 1343.**

**COUNTS 42 - 46**  
(Wire Fraud)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. Beginning in or about January 1998, the exact time being unknown to the Grand Jury, and continuing thereafter up to and including at least April 2000, in the District of Oregon and elsewhere, the defendants

**J. KENNETH STRINGER, III and  
J. MARK SAMPER**

aided and abetted by each other, did knowingly and intentionally devise and intend to devise a scheme and artifice to defraud FLIR, its Board of Directors, its shareholders, its auditors, the SEC, and the investing public, and to obtain money and property of another by means of false and fraudulent pretenses, representations and promises, well knowing at the time that the pretenses, representations, and promises were false when made.

3. On or about the dates listed below, in the District of Oregon and elsewhere, defendants aided and abetted by each other, for the purpose of executing the aforementioned scheme and artifice to defraud and for obtaining money and property by means of false and fraudulent pretenses, representations, and promises, did knowingly cause to be transmitted in interstate commerce by means of writings, wire communications, facsimiles, signals and sounds, that is wire communications via conference calls with investor analysts across state lines, using a telephone located at FLIR's offices in Portland, Oregon through an operator located in San Francisco,



California, which connected to the investor analysts in the locations identified below, as well as other analysts located in other states, each wire communication conducted via conference call being a separate count in the Indictment:

COUNT	DATE	WIRE COMMUNICATION	INVESTOR ANALYST	ORIGIN	DESTINATION
42	10/29/1998	Conference Call	Steve Deluca of BB Robertson Stephens	Portland, OR	San Francisco, CA
43	03/03/1999	Conference Call	Steve Deluca of BB Robertson Stephens	Portland, OR	San Francisco, CA
44	07/27/1999	Conference Call	Steve Deluca of BB Robertson Stephens	Portland, OR	San Francisco, CA
45	10/26/1999	Conference Call	Joe Arsenio of Hambrecht & Quist	Portland, OR	San Francisco, CA
46	04/17/2000	Conference Call	Joe Arsenio of Chase H&Q	Portland, OR	San Francisco, CA

**All in violation of Title 18, United States Code, Sections 2 and 1343.**

**COUNT 47**  
(Wire Fraud)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. Beginning in or about January 1998, the exact time being unknown to the Grand Jury, and continuing thereafter up to and including at least April 2000, in the District of Oregon and elsewhere, STRINGER, with co-defendants SAMPER and MARTIN, did knowingly and intentionally devise and intend to devise a scheme and artifice to defraud FLIR, its Board of

Directors, its shareholders, its auditors, the SEC, and the investing public, and to obtain money and property of another by means of false and fraudulent pretenses, representations and promises, well knowing at the time that the pretenses, representations, and promises were false when made.

3. On or about December 22, 1998, in the District of Oregon and elsewhere, STRINGER, for the purpose of executing the aforementioned scheme and artifice to defraud and for obtaining money and property by means of false and fraudulent pretenses, representations, and promises, did knowingly cause to be transmitted, from Portland, Oregon, in interstate commerce, by means of writings, wire communications, facsimiles, signals and sounds, a side letter granting a right of return to Flight International, located in Newport News, Virginia.

**In violation of Title 18, United States Code, Section 1343.**

**COUNTS 48-50**  
(Bank Fraud)

1. The Grand Jury realleges each and every allegation contained in the Introduction and realleges the manners and means of the conspiracy as set forth in Count 1 of this Indictment, and incorporates them as if fully set forth herein, as describing the devices, scheme and artifice to defraud.

2. On or about the dates set forth below, in the District of Oregon and elsewhere, STRINGER and SAMPER, aided and abetted by each other, did knowingly execute and attempt to execute a scheme and artifice to defraud a financial institution, and to obtain monies, funds, credits, assets, and other property owned by and under the custody and control of a financial institution, whose deposits were insured by the Federal Deposit Insurance Corporation, by means of false and fraudulent pretenses, representations and promises, to wit, STRINGER and SAMPER submitted materially false financial information to the financial institutions listed below and falsely represented

that the borrowers on the credit agreements set forth below were in compliance with certain material terms of those credit agreements:

COUNT	APPROXIMATE DATE	CREDIT AGREEMENT
48	09/01/1998	\$35,000,000 Credit Agreement, dated September 1, 1998, among FLIR Systems, Inc., as borrower, and Bank of America NT & SA
49	03/29/1999	\$70,000,000 Credit Agreement, dated March 29, 1999, among FLIR Systems, Inc., as borrower, and Bank of America NT & SA
50	12/19/1999	\$100,000,000 Credit Agreement, dated December 19, 1999, among FLIR Systems, Inc., as borrower, and Bank of America, N.A.

**In violation of Title 18, United States Code, Sections 1344 and 2.**

DATED this \_\_\_\_\_ day of November, 2003.

A TRUE BILL.

\_\_\_\_\_  
FOREPERSON

Presented by:

KARIN J. IMMERGUT  
United States Attorney

\_\_\_\_\_  
ALLAN M. GARTEN  
Assistant U.S. Attorney

\_\_\_\_\_  
MICHAEL K. ATKINSON  
Trial Attorney  
United States Department of Justice  
Criminal Division, Fraud Section